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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 000084

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E.O. 12958: DECL: 01/12/2016
TAGS: [ECON](#) [ECPS](#) [ENRG](#) [PGOV](#) [VE](#)
SUBJECT: CANTV'S PRESIDENT DISCUSSES NATIONALIZATION WITH
EMBASSY

REF: A. CARACAS 59
[1](#)B. CARACAS 71

Classified By: Economic Counselor Andrew N. Bowen for reasons 1.4(b) and (d)

[1](#)1. (C) Summary: Econoffs met with CANTV President Gustavo Roosen and senior staff on January 11 to get their take on Chavez, plans to nationalize the Venezuelan telecommunications giant, of which Verizon owns 28.5 percent. Roosen noted that Chavez surprised everyone with the timing of his announcement, including CANTV and Chavez, own cabinet. According to Roosen, a confluence of factors: Chavez, strong belief that telecommunications is a strategic sector, hostility of BRV cabinet ministers towards CANTV's management, and BRV concern over Mexican TELMEX investor Carlos Slim, s 2006 hostile tender offer all drove the move. CANTV views the nationalization as a fait accompli, and has already begun working with Goldman Sachs to maximize shareholder value and to manage the shape of the nationalization. Roosen admitted that the BRV had not explained its plans but predicted the process would proceed rapidly. He pitched EconCouns to sensitize Verizon regarding the likely speed of the process and the need to move quickly to shape the outcome. When completed, Chavez will have an even tighter grip on power with the backbone of Venezuela, s telecommunication industry squarely in his hands. End Summary.

Why CANTV ?

[1](#)2. (C) EconCouns, accompanied by Econoff and CommCouns, met January 11 with CANTV President Gustavo Roosen, Chief Financial Officer Armando Yanes, and Legal Advisor Francisco Palma. Roosen said he was surprised by the timing of Chavez' announcement at the swearing-in of the cabinet on January 8, but not by the substance. He noted that Chavez, as a military man, has always believed that telecommunications was a vitally strategic sector. He added that while the campaign against CANTV may not have been Chavez, brainchild, a confluence of factors including resentment towards CANTV within Chavez' cabinet because it is a private company and a foreign takeover bid for the company made it easy to convince Chavez to go to battle against CANTV.

¶3. (C) Two key Chavez ministers, Jorge Giordani, Minister for Planning and Development, and Maria Cristina Iglesias, Minister of Light Industry and Commerce, have been targeting CANTV for some time, according to Roosen. Giordani, one of the BRV's key economic figures and a strong statist, never accepted CANTV's privatization in 1991 and 1996. An engineer employed by CANTV at the time, Giordani opposed the privatization on principle and has always planned to recover CANTV for the state. Iglesias had previously served as Minister of Labor (2004-2005) while CANTV was involved in legal battles over pension plans. In Roosen's view, Iglesias took CANTV's legal challenges to Iglesias' pension campaign as a slap in the face, and has never forgiven CANTV management.

¶4. (C) Roosen suggested that the BRV move toward nationalizing CANTV was not entirely unexpected (although the timing was) because the company was "in play." Mexican billionaire Carlos Slim's Telmex has had a tender offer on the table since April 2006 for Verizon's 28.5 percent controlling interest of CANTV and any additional shares that other shareholders would tender. (Note: U.S. investors own approximately 75-80 percent of the remaining CANTV shares through the ADR market. End Note.) During the meeting, Roosen continually referred to Slim's bid as an "opa" (read: hostile takeover). Whereas Verizon has allowed CANTV directors to manage the company itself, Slim had indicated that Telmex would control management. The Venezuelan Comision Nacional de Valores, the CNV (SEC equivalent), which operates under the Ministry of Finance, had characterized the CANTV deal as a &firesale,8 arguing that Slim's target price was far too low. Roosen suggested that the BRV probably found it unacceptable to have a Mexican "monopolist" whose reputation in the telecommunications field preceded him

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in charge of this asset. (Note: According to the tender offer filed with the SEC in April 2006, the price was USD 21.10 per ADR, or USD 3.01 ordinary shares on the Caracas stock exchange.)

Caught Off-Guard

¶5. (C) Roosen explained that the CNV and the Minister of Finance were also caught off-guard by Chavez's announcement, and that no one inside the government had expected the huge market reaction on Monday afternoon. Roosen told us that Chavez, CNV officials and the Minister of Finance Cabezas, held a panicked emergency midnight meeting on Tuesday, January 9, to discuss the market fallout from the announcement; in particular, the huge spike in the parallel exchange rate and the 35 percent drop in the CANTV ADR share price, and temporary suspension of trading by the NYSE. This led to the subsequent announcements by BRV officials this week that companies would be compensated fairly and according to law.

¶6. (C) CANTV reacted quickly to the surprise announcement on Monday, immediately hiring Goldman Sachs to advise them on how the company should urge the BRV to structure the nationalization. Roosen explained that the company's priority now is to not try and fight the inevitable, but rather to work with the BRV on shaping the form the nationalization will take in order to maximize value. Roosen explained that Goldman has advised CANTV to let Verizon and Telefonica fight their own battles and that CANTV should worry about their customers and their small shareholders. (Note: Spanish telecom giant Telefonica owns approximately 7 percent of CANTV shares.)

The Verizon Factor

17. (SBU/NF) Roosen urged us to reach out to Verizon and encourage their active participation in shaping the nationalization process. From Roosen's perspective, Verizon has not shown any interest in the process at this point. He had drafted a letter to one of Verizon's senior executives in New York, and may have already talked to him informally, but he did not feel that they understood the urgency of the process. Roosen indicated he would be willing to fly to New York personally to try to meet with senior management. He added that it was also very important that Verizon remain low-key in the process and offered Goldman's suggestion that they hire a Spanish, not American, law firm or advisor, throwing out the name of Spain's former Socialist Prime Minister, Felipe Gonzalez, as an example. Roosen also confirmed, as we had assumed, that the Slim tender offer was officially dead.

18. (C) Verizon,s CANTV shares comprise less than 1 percent of Verizon's total assets and are held through a Dutch off-shore company. (Comment: The ramifications of ownership appear twofold: first, Verizon can benefit from investment protection provisions of a bilateral Dutch-Venezuelan investment treaty to protect itself against outright expropriation, and second, the CANTV shares are probably held off balance sheet, reducing Verizon,s shareholder direct exposure to the CANTV nationalization. End Comment.)

19. (C) Comment: Roosen,s comments regarding Verizon,s participation in the CANTV nationalization are somewhat contradictory. On the one hand, he wants Verizon to be involved in the process, but it needs to be low-key involvement. Roosen and company probably fear that aggressive Verizon participation with a U.S. law firm at its side would set up the type of "Empire vs. the BRV" confrontation that plays into Chavez' hands. A protracted media-intesive process would drag the process out and could have a downward effect on the value of the company. On the other hand, if Verizon passively sits by on the sidelines, it could reduce CANTV,s bargaining posture over price with

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their controlling shareholder not a player in the game. CANTV is an investment for Verizon, not an affiliate with any operations. With that in mind, Verizon,s main interest will be getting paid as much as possible as quickly as possible, especially with the Telmex tender off the table. End Comment.

Shaping the Process

110. (C) Roosen told us that it remained to be seen what form the nationalization would take, but that one of two broadly defined options was likely. Option 1: BRV negotiates a price with shareholders and then buys them out. Roosen stressed that from an operations standpoint for a public company, this would be very difficult if the BRV wanted 100% ownership. Option 2: the National Assembly passes a comprehensive nationalization law and then offers shareholders a take-it-or- leave-it price. There are several variants and hybrids on these plans. One option Roosen specifically mentioned was spinning off CANTV,s mobile service provider, Movilnet, as a public company and compensating shareholders with a mix of Movilnet shares and cash. Roosen said that CANTV has already had preliminary discussions with the CNV and that a meeting with Cabezas was on the agenda. They expect the working group for the nationalization to be chaired by Vice-President Jorge Rodriguez, and include Telecommunications Minister Jesse Chacon, Finance Minister Cabezas and include Goldman, CANTV management, CNV, and other interested parties. Roosen added that the BRV had "no idea" of how to go about negotiating a fair price for the company.

As for timing, he pointed out that the BRV was not efficient at executing its policies but thought the process would begin within a month.

BRV: Tightening the Grasp

¶11. (C) When EconCouns asked how much of Venezuela's telecommunications infrastructure was dependent on CANTV, Yanes replied that they were the equivalent of "AT&T pre-1984." Assuming the nationalization is completed, the BRV will own the backbone of the Venezuelan telecommunications industry. In addition to providing fixed and mobile lines service, CANTV provides broadband internet service. Roosen told us that CANTV also provides several back-office support functions for various major banks, and that they have now reduced their contracts with CANTV to one-year. Another factor which was likely involved in the BRV's decision was the fact that CANTV is a cash-cow.

¶12. (C) Comment: CANTV is a tremendous asset for the BRV to control and is another means by which Chavez can tighten his grip on society. CANTV's comprehensive telephone and internet networks transform it into a potential tool in the hands of the BRV to interfere with privacy and freedom of the press. Roosen subsequently called EconCouns on January 12 to say that while he was not initially sure that Chavez' nationalization move against the telecommunications and Electricity sectors was targeted against companies with significant U.S. ownership, he now believed that was the case, given announcements late January 11 that other mobile phone providers were not included. He also noted that the Caracas Electricity Company (which AES controls) was never a government entity, and that SIDOR (the privatized steel company) is apparently not included in the BRV's nationalization plans.

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